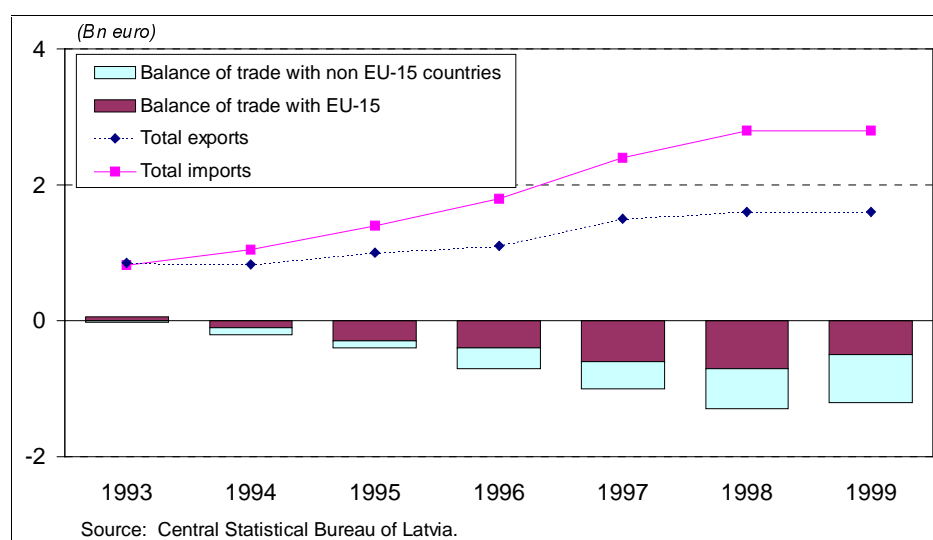


# Latvia and the EU

Tim Allen

Latvia, like the other Baltic nations, has developed into a remarkably open and trade-oriented economy. Import and export growth has been substantial throughout the past decade, but the effects of the Russian crisis have seen trade figures slip back in 1999. A clear shift in external trade towards the EU has been taking place over the past decade, while Latvia has benefited from east-west transit trade in oil, timber and metals. Its main trading partners are Germany and Russia. Latvia has also been re-focusing on its comparative advantages in the export market for wood products.

Fig. 1 Latvia's external trade



## Trade shifts westward

As with neighbouring Estonia and Lithuania, Latvia has lived for centuries under Hanseatic influence and its open trading tradition. Then and during its inter-war independence Latvia clearly flourished as a transit location due to its geographical location as a hub between east and west. Nowadays, trade is finding its previously lost place within the country's economy, while Latvia joined the WTO in 1998. To set the economic background: In 1999, inflation was down to 0.8% and unemployment stood at around 14.5% (see also page 3 for comparison with EU). Latvia's GDP per capita in PPS in 1998 was close to a fourth that of the EU placing it in a group of countries with Bulgaria, Romania, Lithuania and Turkey. Its fully convertible currency - the lats - has been pegged to the SDR<sup>(1)</sup>.

Over the past years, the direction of Latvia's trade has shifted quite notably towards the West and away from Russia and other NIS (see figure 4). However, Russia remains a key factor for the economic well-being of the region. To illustrate this point, a strong economic expansion in Latvia between 1996 and mid-1998 came to an end virtually overnight following the Russian financial crisis: amongst other factors, the steep depreciation of the Russian rouble had priced most Latvian goods (at least in the short-run) out of their Russian markets. Consequently, GDP growth (0.1% in 1999), and export and import growth (see figure 1) came to a halt in 1999 - although the effects were less severe than in Estonia and Lithuania, for example. That crisis is now over, as the latest figures from Russia and from Latvia show (Latvian trade<sup>(2)</sup> January-March 2000 was up by around 11%).

<sup>(1)</sup> Special Drawing Right: international reserve asset used as the IMF unit of account.

<sup>(2)</sup> See Central Statistical Bureau of Latvia, Press release 17.05.2000.

## Statistics in focus

### EXTERNAL TRADE

THEME 6 – 16/2000

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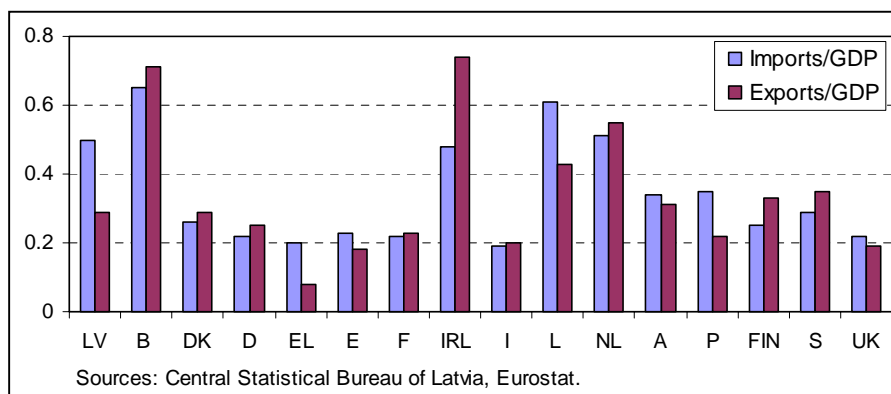
Seen on a larger time scale and in value terms, Latvia's import figures more than tripled over the past seven years, while exports almost doubled (again figure 1). Thus its trade gap widened over the period with the non-EU trade gap taking an increasing share. In 1999, EU trade accounted for slightly less than 60% of overall trade (see table 1), and the EU's share has been increasing steadily over the past years. Ratios measuring its imports and exports in relation to GDP fit in well among those of EU Member states, as figure 2 shows. Overall, Latvia reported to have imported goods worth 2.7 bn euro while it exported around 1.6 bn euro worth in 1999. Russia was still Latvia's second most important trading partner in 1999 – only falling short of Germany. Sweden, across the Baltic Sea, was next in line followed by the UK while Lithuania and Estonia were also important commercial partners.

### Transit trade

As noticed above, Latvia's dealings have turned increasingly westbound while transit trade played an important role. The eastern Baltic region has no less than 7 large ports<sup>(1)</sup> which all compete for the transit trade with the former Soviet Union - in particular in oil, timber and metals (for example, from new Russian oil fields found in the arctic). However, the resulting transport receipts (recorded under services in the balance of payments) were not sufficient to finance a growing current account deficit (see figure 3) which was paid for by large amounts of foreign direct investment. This investment also helped to upgrade the quality of Latvia's exports, which resulted in an increase in its market share in the EU. To put this into figures, since 1995 both export growth vis-à-vis the EU increased by 10% faster than overall average export growth (see table 1 and figure 4).

<sup>(1)</sup> See 'Statistical Yearbook on candidate and South-East European countries 1999'.

Fig. 2 Latvia in comparison to EU Member states, 1999

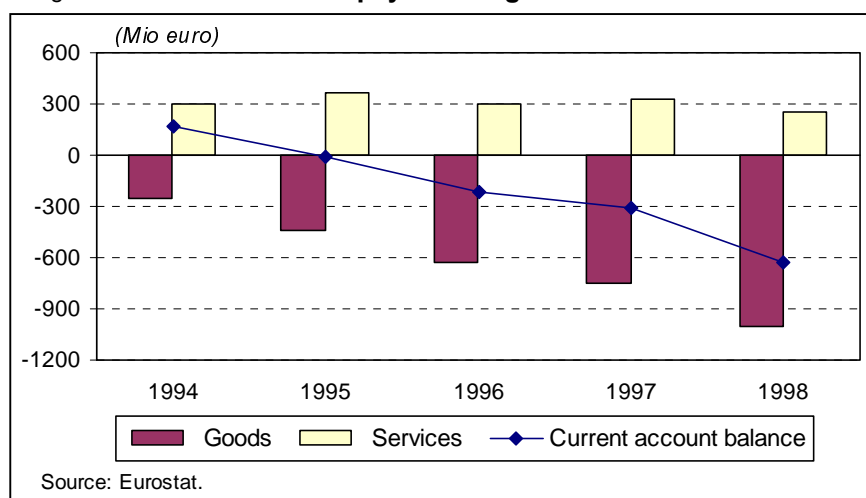


Tab. 1: Latvia's trade by main partners<sup>1</sup>, 1999

Partners	Rank	Value in 1999			Share in total		Annual variation 99/95	
		Imports	Exports	Balance	Imports	Exports	Imports	Exports
		(Mio euro)			(%)		(%)	
<b>Total</b>		<b>2 771</b>	<b>1 617</b>	<b>-1 155</b>	<b>100.0</b>	<b>100.0</b>	<b>18.8</b>	<b>12.8</b>
<b>EU-15</b>		<b>1 510</b>	<b>1 010</b>	<b>-500</b>	<b>54.5</b>	<b>62.5</b>	<b>21.4</b>	<b>23.1</b>
Germany	1	420	272	-147	15.2	16.9	18.3	19.0
Sweden	3	201	172	-28	7.2	10.7	15.8	16.7
Utd Kingdom	4	90	266	176	3.3	16.4	24.3	30.9
<b>NIS</b>		<b>416</b>	<b>195</b>	<b>-221</b>	<b>15.0</b>	<b>12.0</b>	<b>1.5</b>	<b>-15.5</b>
Russia	2	292	106	-186	10.5	6.6	-0.8	-19.4
<b>CEC</b>		<b>593</b>	<b>243</b>	<b>-349</b>	<b>21.4</b>	<b>15.0</b>	<b>31.0</b>	<b>18.8</b>
Lithuania	5	203	122	-82	7.3	7.5	27.5	21.9
Estonia	7	177	76	-101	6.4	4.7	26.1	25.0
US	11	56	85	28	2.0	5.3	20.3	59.8
EFTA	12	108	24	-84	3.9	1.5	46.3	1.9
<b>Others</b>		<b>88</b>	<b>60</b>	<b>-27</b>	<b>3.2</b>	<b>3.7</b>	<b>13.8</b>	<b>33.2</b>

<sup>1</sup> See definitions of NIS, CEC and EFTA aggregates on page 3.  
Source: Central Statistical Bureau of Latvia.

Fig. 3 Latvian balance of payments : goods vs. services

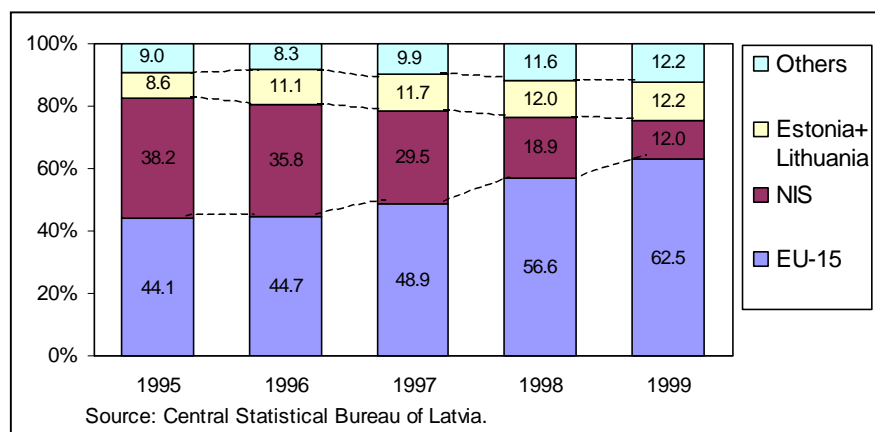


## Wood products

Historically Latvia has been a net exporter of agricultural products, led by dairy products, processed meat and fish. Prior to independence, the Soviet Union was Latvia's largest market for food products, absorbing a large part of the country's total agricultural output. This changed over the past years as forestry products started to dominate Latvia's foreign trade reflecting a reorientation towards Latvia's comparative advantages. Indeed Latvia has started importing Belarussian wood material for re-exporting at higher prices and value added after processing – a sign that the foreign direct investment mentioned above has started paying off.

EU-Latvian trade in 1999 was characterised by a large share of Latvian imports in intermediary goods (almost 55% - see table 2) into the EU. These intermediary products were mostly wood-based (processed lumber, plywood, panels, furniture etc.). Consumer and equipment goods were also of importance. The significant drop in imports of energy products between 1996-99 was essentially due to a purely statistical phenomenon as transit trade from Russia heading for the EU was reclassified (no longer counting as imports from Latvia into the EU).

Fig. 4 Latvia's main export partners



Tab. 2 EU-Latvia trade by product classified by type of use, 1999  
( Reporter: EU-15, partner: Latvia)

Product groups (CEA)	Imports	Exports	Share in total		Annual variation 99/96	
			Imports	Exports	Imports	Exports
	(Mio euro)		(%)		(%)	
<b>Total</b>	<b>1 401</b>	<b>1 647</b>	<b>100.0</b>	<b>100.0</b>	<b>6.9</b>	<b>13.9</b>
Agricultural products	159	36	11.4	2.2	14.5	-4.6
Food products	35	151	2.5	9.2	20.1	-6.9
Consumer goods	224	256	16.0	15.5	25.6	18.0
Automobile	4	132	0.3	8.0	14.5	10.6
Equipment goods	26	400	1.9	24.3	2.8	29.6
Intermediary goods	760	532	54.2	32.3	22.3	21.7
Energy	190	89	13.5	5.4	-25.2	-0.7
Miscellaneous products	3	11	0.2	0.7	73.9	1.7

Source: Eurostat.

## ➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

The country aggregates: EU: EU-15.

NIS (New Independent States): Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Uzbekistan, Russia, Tajikistan, Turkmenistan, Ukraine.

CECs (Central European Countries): Albania, Bulgaria, Hungary, Poland, Romania, Estonia, Latvia, Lithuania, Bosnia-Herzegovina, Croatia and Slovenia; Czech Republic, Slovakia, Serbia Montenegro and the FYROM.

EFTA: Switzerland, Iceland, Liecht., Norway.

Data sources: Customs sources. Eurostat Comext database: Phare domain for Latvia's trade with the rest of the world (from 1995 to 1999); EEC special trade domain for bilateral trade between the EU and Latvia. Di-

vergences between the two sources on figures concerning bilateral trade can be partly explained by the use of different methodologies and concepts.

System: Special trade .

Classification: in figure 4: primary products: sections I-V of the Harmonised system (HS); manufactured articles: HS sections VI-XXI. The nomenclature used in table 2 (CEA or Classification for Economic Analysis) facilitates the analysis of macroeconomic issues (production, investment, consumption, employment, etc.) by offering indicators that are less geared to production analysis.

Statistical values: EU: values CIF for imports and FOB for exports; Latvia: CIF/FOB.

In this report, 1 Bn euro= 1000 million euro

### Basic figures for 1999

	Latvia	EU-15
Population (Mio)	2.4	375.3
GDP/capita (in PPS)	5 800	21 190
Unemployment rate	14.5%	9.2%
Inflation rate	0.8% *	1.2%

\* PROXY HICP.

See also "Eurostat Statistics in focus, External trade, no 1/1999, Latvia's foreign trade" which you can order.

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